

**Governor's K-12 Public School Funding
Advisory Council**

**Room 137, State Capitol
Thursday October 4, 2001**

COUNCIL MEMBERS PRESENT:

Jeff Hindoien, Policy Advisor, Office of the Governor
Madalyn Quinlan, Chief of Staff, Office of Public Instruction
Kirk Miller, Chairman, Board of Public Education
Rachel Vielleux, Missoula County Superintendent of Schools
John McNeil, Superintendent, Savage Public Schools
Sandra Murie, Superintendent, Rocky Boy Public Schools
Geoff Feiss, Trustee, Helena School Board
Dennis Burr, Clancy
Linda Tutvedt, Trustee, Kalispell

STAFF

Amy Carlson, Budget Analyst, Office of the Governor
Linda Ashworth, Secretary

VISITORS:

Wayne Koterba, Westby Schools
Dave Puyear, MREA
Bob Vogel, MSBA
Loran Frazier, School Administrators of Montana
Jim Standaert, Legislative Services Division
Mary Whittinghill, Montana Taxpayers Association
Paul Huber, Bainville School
Gary Baden, Phillips County School Superintendent
Eddye McClure, Legislative Services Division
Connie Erickson, Legislative Services Division
Ericka Smith, Lee News

CALL TO ORDER:

Chairperson, Jeff Hindoien called the meeting to order.

Jeff Hindoien reminded the committee that tapes of John Augenblick's presentation and discussion would be available through Madalyn Quinlan. Anyone desiring copies of the tapes were requested to provide two videotapes to Madalyn.

APPROVAL OF MINUTES:

It was moved and seconded to approve the minutes of the September 4, 2001 meeting.

UPDATES FROM WORKING GROUPS:

Amy Carlson reported that the working group that was formed to review the current funding structure and suggest improvements had met. The committee consists of 12 members and is chaired by Steve Johnson, business manager from the Bozeman School District. She reported that the group had set a goal of having information ready to present at the November meeting.

Consolidation:

Rachel Vielleux presented information from the working group that investigated the question of school consolidation. Rachel stated that they needed more direction from the council and had sent a summary to individual council members requesting the members' thoughts on other individual areas to pursue. She also distributed information compiled by Montana Rural Education Director, Dave Puyear. The information offered an abbreviated collection of research abstracts and summaries related to the issues of school consolidation. Dave Puyear reiterated that research across the country expounds on the value of small rural schools. They are very successful. He avowed that Montana was ahead of the curve because of the success of rural schools.

Rachel presented the council with a laundry list on the positive and negative aspects of consolidation. She recommended that the council look at each issue and come to a consensus on each item.

After a brief discussion, the council decided to look at the issue of high school districts that would like to consolidate, while leaving the individual elementary districts intact, look at previous recommendations from the Montana School Boards Report on consolidation, and investigate the sharing of services between individual schools. The general consensus of the council was that there was not a great deal of evidence that would suggest that consolidation of school districts would provide tremendous benefits.

Jeff reminded the council that they might need to recommend changes in the law in order to facilitate some recommendations.

Kirk Miller cautioned that changes to local control issues would hinge on the council's tax equity recommendations.

Teacher Salary Issue:

Tom Bilodeau, MEA/MFT reported that two issues would need to be discussed when addressing the issue of teachers salaries. First, local school board control issues under the Constitution, coupled with Montana's collective bargaining laws would make issues of salary a matter of public decision making and collective bargaining. Second, would be the concern of an unfunded mandate.

Mr. Bilodeau maintained that a \$5000 FTE allocation from the legislature could be mandated directly into the paychecks of school employees. The Wyoming model has become a funding source for the state's school districts. The actual distribution of the dollars was left up to the local school district and local bargaining units. The local district decided how the money would be distributed to staff, either through salary or insurance costs. That model could be accomplished in Montana and would be supported by MEA/MFT.

Mr. Bilodeau reminded the council that a \$5000 per FTE would have to be state funded. Local districts could not be expected to raise the money. The \$5000 FTE, as part of the formula, would be distributed to school districts as direct state aid. He mentioned the concern that this would provide encouragement to school districts to hire more staff. He felt that \$5000 wouldn't be sufficient to encourage increasing the number of personnel. He maintained it would benefit teacher recruitment and retention.

A concern was raised on how the state would insure that the \$5000 would get into teacher's pockets without some type of state control on teacher salaries. Mr. Bilodeau suggested it would have to be verified by reports and data provided to the Office of Public Instruction.

Mr. Bilodeau reminded the council that MEA/MFT had supported legislation during the last session to create a statewide teacher salary schedule. All the substantial additional costs were to be born by the state. The variance between districts was enormous and was never fully calculated. It was the opinion of MEA/MFT that state funding of the entire additional cost would not create an unfunded mandate problem.

Jeff reminded the council that they had been directed to determine whether a statewide salary schedule would be possible under the constitutional provision of trustee management. Tom said that he would contact MSBA and provide one or two briefs concerning statewide salaries for the next meeting.

Kirk Miller suggested investigating a statewide health insurance pool for school district employees. Jeff agreed this was an important issue, but was not unique to teachers. Kirk stated his belief that the issue of recruitment and retention of qualified staff would be tied to both the health insurance and retirement issues.

Jeff agreed that there should be some way to blend this in. It was suggested that MEA/MFT make a presentation on proposals they were developing in the area of health insurance.

It was suggested that Steve Johnson's group look at moving the cost of health insurance out of the general fund due to the impact of the escalating cost of health insurance.

UNITS OF FUNDING

Regression Analysis/Entitlement Evaluation:

Jim Standaert explained that regression is a line fitting the data on spending as related to ANB. The line is optimal in the sense that no other line would fit so well. In this case, the regression is run over a cross section of schools at a point in time. It is an average, and does not represent the maximum budget. In this case the results are influenced by the current Maximum/Minimum budgeting system.

He stated that regression is not user friendly or easily explainable. It cannot measure the "true cost", but instead measures average spending per ANB as constrained by the current system. It is not able to say anything about adequacy or about split between state and local funding. It is not able to tell how schools or the state should react over time to declining enrollment and it is not able to say anything about proper weights for special education, at risk youth, etc.

Elementary compared to Middle School Cost:

Amy Carlson informed the council that the Office of Public Instruction had requested information from several large school districts on their elementary school costs as compared to their middle school costs. Most of those districts had not provided the requested information prior to the meeting. Amy stated that she had asked Bruce Messinger, Superintendent of the Helena schools to shed some light on the issue.

Mr. Messinger explained the concept of the middle school and the standards that must be met by an accredited middle school program. He reminded the council that he spoke for only one school district, but felt that many of the same problems were being felt in other schools of the same size across the State of Montana

Mr. Messinger explained that his information shows that as districts experience declining enrollment, the entire budget is redistributed and assigned to services that are needed, appropriate and required by accreditation standards. The Helena district spends a larger percentage, as a whole, in the K-5 than they do in the middle school. The distribution of monies within the K-8 framework is up to the discretion of the school board. Although Helena has worked hard to honor

the accreditation standards, increased costs have meant a cut in expenditures by millions of dollars. The Helena district has cut costs by eliminating staff and closing two elementary schools.

The council wondered if there were accreditation standards that were causing deficiencies or additional costs that could otherwise be avoided without negatively affecting the quality of education.

Mr. Messinger stated his belief that the priorities of the state were also the priorities of the Helena district. He felt that most districts were aligning their curriculums with the state standards. He stated his support for state accreditation standards.

Rachel Vielleux expressed surprise that the expenditures for a middle school were less than an elementary school. Mr. Messinger argued that it was becoming impossible to provide the quality education that the state expects and has grown accustomed to while living up to the expectations of the accreditation standards. Since there is not enough money being allocated for elementary students the money is being pulled from other places to bridge the deficiency. Many costs are being shifted outside of the general fund budget, which could lead to a violation of accreditation standards. He argued that elementary (K-5) funding should match the middle school funding and that both should match the high school in allocation of funds.

Kirk Miller stated that to a smaller degree, smaller schools such as Havre are experiencing the same problems. John McNeil stated that Class C schools would require a larger percentage for 7th and 8th grade due to foreign language requirements and smaller class splits.

\$5000/FTE:

Amy reported on the council's request that the cost be investigated to determine the cost of providing a state funded \$5,000 per FTE. The analysis was done for certified teachers only and then all certified staff. She reported that the increased cost of the proposal would be the same as an 11-14% increase in entitlements.

She reported that the proposal would create an incentive for districts to hire more certified staff, when a better use of resources may be in other areas, and it could create an equity concern because high spending districts would have more certified staff and would qualify for more of this entitlement than low spending districts.

Jeff reminded the council that the bill charged them to analysis the relationship between increasing staffing levels, in the face of declining enrollment, and the result of the financial impact to school districts in the state. He pointed out the reality that legislators questioned the need for an increase in staff while the

number of students was in decline. He questioned whether a per FTE, whether it be \$500 or \$5000, is a good mechanism to blend into the existing formula to deal with the issue of declining enrollment. He felt the purpose of the mechanism should be for teacher recruitment and retention. He also stated that fixed costs don't decrease with the loss of 1,2,5, or 10 students. Jeff also questioned if this would be an appropriate mechanism as compared to an averaging analysis on ANB count or the soft caps that would let schools adjust differently to declining enrollment

Averaging Analysis:

Amy Carlson reported on the problems of declining enrollment, budget caps, and options for Averaging ANB to mitigate the effects. She maintained that one-third of the districts in the state are not experiencing declining enrollment. The first section of the report addressed the effects of declining enrollment on school district general fund budgets. She gave an overview of the problem, using example districts to show how declining or increasing enrollment would affect their general fund budget and summarized the effects at the state level. She explained how a declining enrollment causes a reduction in the state's cost to fund schools. Given current enrollment estimates and the FY 2003 entitlements, FY 2004 will have 3,075 fewer ANB and \$6.3 million less cost to the state general fund than in FY 2003. This decline in enrollment and projected state savings is part of the present law budget for schools. Any changes to those costs, such as increase costs for averaging is considered a new proposal in the budgeting process and would require schools to compete for general fund resources with all other general fund demands.

The second section of Amy's testimony addressed the request by the council to address the averaging of ANB to soften the reductions to budgets currently required as a result of declining enrollment. She used the same six districts as used in the first scenario. She considered three options here: 5-year, 3-year, and 2-year averaging of the prior years ANB. She also stated that times of dramatic change, either increases or decrease, would likely need special rules to adjust budgets outside of straight averaging. She cautioned that if districts could choose a higher budget in times of declining enrollment, and they do not prepare for the future reductions, averaging might only delay difficult budget decisions.

She summarized that districts with declining enrollments would see larger increases from current law in budget authority and state aid with the five-year proposal than the two-year or three-year proposals. If the ANB change would be an increase, the changes in budget authority would be negative as the lower prior year ANB was averaged with the higher current year ANB. If the ANB change is a decrease, the changes in budget authority would be positive. Larger changes in enrollment would also lead to larger changes in budget authority over current law.

Amy reported that the cost of the proposals to the state general fund would be substantial. In districts with declining enrollment the cost to local taxpayers could be higher or lower than current law. If budgets did not increase as a result of averaging, the state would be paying a higher amount and local taxpayers would pay less. If school boards chose higher budgets as a result of averaging, then local taxes could be higher.

In districts with increasing enrollments, the state would be paying less, due to average ANB being below the current law ANB. Local taxpayers would usually pay more in districts with increasing enrollments.

She concluded that averaging ANB might be a good option for easing the reductions from declining enrollment for many districts. Averaging may cause concerns among districts with rapidly increasing enrollments and some method of addressing rapidly changing enrollments needs to be included in an averaging proposal. Extremely small schools would continue to be a problem even with averaging. Some method of leveling out the payments to schools with one classroom would be beneficial to those schools.

Ms. Carlson concluded her testimony with the following questions:

1. Should averaging be used to smooth enrollment patterns for schools?
2. If so, how many years is the right number of years to average over?
3. Should there be adjustments in the ANB if there is a great difference between averaged ANB and actual enrollment?
4. Should there be different type of calculation for extremely small schools?

John McNeill explained that the longer you could stretch the averaging out the more able you would be to level the playing field. John felt this would help state government in their planning also. He felt this would be a more stable mechanism for allowing schools to make adjustments.

TAXPAYER EQUITY:

State Funding the BASE Budgets:

Dan Dodds reported on how many mills would have to be levied statewide if the state were to fund all districts' BASE budgets. The number of mills that would need to be levied uniformly statewide to fund BASE budgets would depend on how current revenues used to fund BASE budgets would be used. He entered written testimony that showed the calculation of a uniform mill levy for school districts' BASE budget. Mr. Dodds reported that the revenue used to pay for BASE budgets for the 2001-2002 school year was divided into four categories: state general fund, non-levy revenue distributed by the state, local ad valorem property tax and other revenue collected locally.

The additional statewide property tax mill levy that would be required to fully fund school districts' BASE budgets is 60 mills. This assumes that all the revenues currently available to schools for the BASE budget, other than local property taxes, would be collected and used by the state to fund school districts' BASE budgets. It also assumes that \$7 million in prior year's fund balance would not be available on an ongoing basis under this funding mechanism.

Mr. Dodds cautioned that funding the BASE budget with a uniform statewide mill levy rather than levying any local property tax mills for the BASE budget would have two policy considerations. First, expenditures may grow faster than the property tax revenue base. Second, removing local funding from the school BASE budget could further separate increased school expenditures and increase taxes in the minds of local taxpayer, possibly making it politically difficult to manage the continuous demands for more education funding.

Mr. Dodds concluded his testimony with the following questions:

1. Does the council want to consider replacing local school mill levies with a uniform statewide school levy?
2. Should all of school districts' current, non-property tax general fund revenue be used to fund the BASE budget?
3. Should a uniform statewide property tax levy float to fund a specific percentage of the BASE budget?

The council wondered how feasible this concept would be to put it into legislation. He felt it would depend on how it was structured. It had potential to be more complicated than the current form of statewide funding. It could also be fairly straightforward. The council felt it answered the question on what to do with HB 124.

GTB Funding for Over-BASE Budgets:

Dan Dodds testified on the costs needed to provide guaranteed tax base aid to school districts for over-BASE spending and how it would affect tax effort disparities.

He gave a background of the guaranteed tax base aid (GTBA). He stated that the GTBA guarantees each district a minimum amount of revenue from each mill it levys, even if levying a mill on the district's actual tax base will produce less revenue. GTBA is paid to districts as a subsidy per mill. He informed the council on how the subsidy is calculated in three steps.

Mr. Dodds presented written testimony that examined the three options for local over-BASE GTBA budget areas:

- Difference between maximum and BASE budgets;

- Difference between maximum and BASE budgets, less any non-levy revenue and other funds currently being used to fund over-BASE budget; and
- Difference between maximum and BASE budgets, less funds currently used to fund over-BASE budgets and 75% of federal impact aid.

Mr. Dodds concluded that the scenarios for over-BASE GTBA would require between \$11 million and \$84 million annually in additional state funding. The cost would be \$11 million if the guarantee percentage were set at 100%, local non-property tax funds and 75% of federal impact aid were subtracted from the over-BASE GTBA area, and all districts stayed with their current budgets. Ignoring local resources and federal impact aid would increase the cost by about \$3.5 million. Increasing the guarantee percentage to 175% would increase the cost by up to \$30 million. If school districts increase their budgets because over-BASE GTBA lowered the local cost of over-BASE spending, the additional cost could be \$40 million.

Mr. Dodds concluded his testimony with the following questions:

1. Does the council believe that it is important to reduce disparities in the tax effort required to fund discretionary, over-BASE budgets?
2. Does the council want to give further consideration to over-BASE GTBA as a way to reduce disparities in over-BASE tax effort?
3. Should the over-BASE GTBA budget area be the difference between maximum and BASE budgets, or should other funds be taken into account?
4. What should be the over-BASE guarantee percentage? 100%, 150%, 175%?

Explanation of HB 124:

Judy Paynter provided the council with oral and written testimony in order to address the issue of whether an alternative funding method for distributing HB 124 block grant funds to schools should be developed by the council. She gave a background on tax reimbursement programs and the HB 124 block grant.

Ms. Paynter reported that there are three school block grants in HB 124: (1) the school district block grants, (2) the countywide retirement block grants and (3) the county wide transportation block grants. HB 124 retains five revenue sources at the state and replaces them with a single payment to the school districts for each type of block grant.

Ms. Paynter concluded that with this history of the legislature considering block grant reimbursements to not be the appropriate way to fund local government or school programs, and the rationale of the Local Government Funding and Structure Committee of making the fiscal 2002 and 2003 block grants for schools

temporary until people knowledgeable about school financing could propose a logical distribution method for schools, the school study should address a more long-term way than block grants for funds to be distributed to school budgets.

She left the council with two questions:

1. Does the council want to eliminate the block grants and develop a more rational distribution methodology for these funds?
2. Would the council like OPI and OBPP to propose ways to integrate the block grant money into a formula(s) for the various school budgets and the countywide retirement and transportation affected by the block grant funds?

HB 124 Tax Equity and Options

Amy Carlson reported on HB 124 Tax Equity and Options. She reminded the council that HB 124 block grants were not considered by the legislature to be a permanent solution to replacing revenue lost to districts from tax reductions and other changes incorporated in HB 124.

She maintained that as a result of the current funding formula, tax equity could be improved by removing HB 124 reimbursements from the GTB area of school district general fund budgets.

Block grants are treated like all other non-levy revenue sources, which are the first funding source for the GTB area before any mills are levied. After the non-levy revenue and fund balance re-appropriated are subtracted from the GTB area of the budget, then the number of mills needed to fund this area is determined. Districts with large taxable values, relative to their GTB area, receive little or no subsidy for each mill. Districts with less taxable value, relative to the district GTB area, receive a higher subsidy per mill.

The mills that are required to fully fund the GTB budget of the district vary for two primary reasons:

1. The greater the share of GTB budget that must be funded with a levy, the greater the tax equity and
2. The taxable value of the district may be above the guarantee level.

Ms. Carlson stated that if the council wished to improve the tax equity of BASE mill levies beyond removing HB 124 block grants, it could consider ways to change one of the two main reasons for tax inequity. There could be a further increase in the "shared percentage" by removing all other remaining non-levy tax revenue sources and redistribute this revenue to schools. The second suggestion would be to increase the GTB percentage in the BASE area. The

higher the GTB percentages (currently 175% of average), the more districts will qualify for GTB aid which will leave fewer districts with significantly lower mills.

Ms. Carlson reported that the council could consider several items as methods of redistributing the \$25.5 million state savings from elimination of the HB 124 block grants.

The council could chose to use the block grant revenue for achieving better tax equity by increasing the GTB percentage to 225%. She added that with the increased GTB percentage, there would be a further narrowing and lowering of the range of mills levied by elementary and high school districts.

Amy concluded that removing HB 124 block grants, all districts would pay additional taxes to replace the revenue lost, with some districts losing more revenue than others. Any option that would be chosen to return the \$25.5 million back to districts through the school funding formula would not return the same revenue to the same districts that lost the revenue. There would be winners and losers, but tax levels would be more equal.

If the block grant were removed and GTB percentage was not increased, the council would have to decide how to redistribute back the 25.5 million dollars.

Bringing it all together:

After lengthy discussion the council decided to look at the following issues at the next meeting:

1. The redistribution of HB 124 block grants for non-general fund sources.
2. Work on the county-wide equalization of the BASE budget proposal
3. Jeff will write a summary of decisions made to this point that would include:
 - options for tax equity (statewide levy for BASE)
 - countywide equalization of the BASE
 - increasing the GTB percentage in the general fund
 - three-year averaging with some relief for districts with greatly increasing enrollment
 - eliminating the decrement

The council is still interested in the \$5000 per FTE proposal and offering some assistance in the area of teacher retention and recruitment such as provided in the Teacher Salaries/Teacher Shortages study.

The next meeting will be November 1, 2001.

Chairman Hindoien adjourned the meeting at 4:30

Jeff Hindoien
Chairman

Linda Ashworth
Secretary